

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 193 - HB 331

February 3, 2017

SUMMARY OF BILL: Exempts from the Hall Income Tax (HIT), for tax years beginning on or after January 1, 2017, any taxpayer 100 years of age or older, or any taxpayers who file a joint return and either spouse is 100 years of age or older.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$76,000/Each Year FY17-18 through FY21-22

Decrease Local Revenue – Net Impact – \$40,600/Each Year FY17-18 through FY21-22

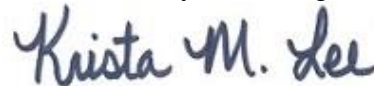
Assumptions:

- Pursuant to Tenn. Code Ann. § 67-2-102, HIT is a five percent tax on income derived from dividends on stock or from interest on bonds.
- Pursuant to Tenn. Code Ann. § 67-2-124, it is the legislative intent that the tax be reduced by one percent annually through enactments of general bills; the tax shall be eliminated for tax years beginning on or after January 1, 2022.
- It is assumed that the HIT rate will remain at five percent until it is fully eliminated for tax years that begin on or after January 1, 2022.
- Given the proposed HIT exemption shall be applied to tax years beginning with tax year 2017, and assuming that 100 percent of HIT owed for tax year 2017 is collected no later than June 30, 2018, the first year impacted by this bill will be FY17-18. This collection pattern is assumed to remain constant into perpetuity. Therefore, the proposed exemption will impact each fiscal year FY17-18 through FY21-22, as the HIT will be eliminated for tax years that begin on or after January 1, 2022 (FY22-23 and subsequent years).
- The Department of Revenue (DOR) reports that, based on a query of HIT taxpayer and driver license data for tax years 2013 and 2014, the average number of taxpayers that are 100 years of age or older is 120. The average total HIT collection from these taxpayers is \$146,918.
- The HIT collections from these taxpayers under current law for each year FY17-18 through FY21-22 are estimated to be \$122,432 [(\$146,918 / 6.0% HIT rate for tax years 2013 and 2014) x 5.0% current HIT rate].

- Based on apportionments of HIT collections for the last three fiscal years (FY13-14, FY14-15, and FY15-16), it is estimated that the state retains 65.44 percent of HIT revenue and local governments are apportioned 34.56 percent.
- The decrease in HIT revenue each year FY17-18 through FY21-22 is estimated to be \$80,119 for the state ($\$122,432 \times 65.44\%$), and \$42,312 for the local government ($\$122,432 \times 34.56\%$).
- Fifty percent of tax savings will be spent in the economy on sales-taxable goods and services.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The net increase in state sales tax revenue each year FY17-18 through FY21-22 is estimated to be \$4,130 [$(\$122,432 \times 50\% \times 7.0\%) - (\$122,432 \times 50\% \times 7.0\% \times 3.617\%)$].
- The total increase in local sales tax revenue each year FY17-18 through FY21-22 is estimated to be \$1,685 [$(\$122,432 \times 50\% \times 2.5\%) + (\$122,432 \times 50\% \times 7.0\% \times 3.617\%)$].
- The net decrease in state revenue each year FY17-18 through FY21-22 as a result of this bill is estimated to be \$75,989 ($\$80,119 - \$4,130$).
- The net decrease in local revenue each year FY17-18 through FY21-22 as a result of this bill is estimated to be \$40,627 ($\$42,312 - \$1,685$).
- Any increase in expenditures for the Department to effectuate the proposed exemption will be not significant.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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